

VZCZCXRO2943
RR RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN
DE RUEHSA #3928/01 3131345
ZNR UUUUU ZZH
R 091345Z NOV 07
FM AMEMBASSY PRETORIA
TO RUEHC/SECSTATE WASHDC 2650
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUCPCIM/CIMS NTDB WASHDC
RUCPDC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPARTMENT OF TREASURY WASHDC
RUEHJO/AMCONSUL JOHANNESBURG 7744
RUEHTN/AMCONSUL CAPE TOWN 5073
RUEH DU/AMCONSUL DURBAN 9371

UNCLAS SECTION 01 OF 03 PRETORIA 003928

SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR TRINA RAND
USTR FOR COLEMAN

SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [EMIN](#) [EPET](#) [ENRG](#) [BEXP](#) [KTDB](#) [SENV](#)
PGOV, SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER NOVEMBER 9,
2007 ISSUE

PRETORIA 00003928 001.2 OF 003

11. (U) Summary. This is Volume 7, issue 45 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- SA's Competitiveness Slides
- Business Confidence Hits Three-Year Low
- Sub-Saharan Africa Experiences Sustained Growth
- Net Reserves Up As Rand Firms
- Black Inequality Increases
- Holiday Inn Opens In Soweto
- Mixed Views On Diamond Production Outlook

End Summary.

SA's Competitiveness Slides

12. (U) According to the World Economic Forum's (WEF's) Global Competitiveness Index, South Africa's Competitiveness has slipped from 36th position last year to 44th this year. South Africa continues to slip in the global competitiveness rankings, despite experiencing the highest economic growth in decades and having sound economic fundamentals. This suggests that South Africa is failing to keep pace with other highly competitive markets. According to the Global Competitiveness Report, South Africa was held back largely by inadequate infrastructure, health care and deterioration in higher education and training. WEF economist Margareta Drzeniek said, "We see a deterioration in the aspects of health care, with businesses starting to feel the impact of HIV and tuberculosis, with the latter having a much higher impact this year than last year". "We have also seen a deterioration in the quality of higher education and training, with business leaders saying the quality of education overall has dropped, while other countries have moved faster," she said. The WEF report painted yet another gloomy picture for the rest of sub-Saharan Africa, saying resurgent economic growth in the region was "not yet reflected in improved competitiveness rankings for the region". South Africa seems to be on the downward trend in other surveys as well. South Africa fell six places from 29th to 35th in the World Bank's Doing Business 2008 survey last month, while the International Institute for Management Development's World Competitiveness Yearbook for 2007 showed a

12-place drop in South Africa's ranking, from 38th to 50th out of 55 countries. (Business Day, November 1, 2007)

Business Confidence Hits Three-Year Low

13. (U) The South African Chamber of Commerce and Industry (SACCI) said its monthly Business Confidence Index (BCI) decreased from 98.7 points in September to 96.9 points in October, its lowest level since June 2004. According to the SACCI, the decrease in business confidence can be attributed to companies' concern about the impact of international market developments on the local economy. The SACCI said "Businesses are becoming more concerned about international economic developments, as well as local adjustment taking place". Accelerating inflation has raised the chances of a further interest rate hike in December 2007, while a global credit squeeze has led to uncertainty and volatility in world markets and has raised concerns about possible slowing world growth. "The global economic slowdown and financial market uncertainty, in particular, may have a more severe impact on countries with large current account deficits and volatile portfolio financial inflows," SACCI said. South Africa's current account deficit stood at 6.5% of GDP in the second quarter of 2007, but was still attracting enough inflows to finance it. The National Treasury said in its 2007 Medium Term Budget Policy Statement last week that the current account deficit would widen from 6.5% of GDP last year to 6.7% this year and 7.8% in 2010. South Africa's import bill is expected to continue climbing due to the capital equipment needed for the massive government infrastructure spending program over the next three years. Higher oil prices are also adding to pressure on the trade balance. (Business Day, November 7, 2007)

Sub-Saharan Africa Experiences Sustained Growth

PRETORIA 00003928 002.2 OF 003

14. (U) According to the International Monetary Fund's (IMF's) latest Regional Economic Outlook Survey, the Sub-Saharan African (SSA) region is experiencing its best period of sustained growth in 30 years. Growth in the SSA region is projected to increase by 6.0% in 2007 and 6.8% in 2008. Foreign Direct Investment (FDI) is reported to be particularly strong in oil-rich countries while South Africa is attracting the majority of private-portfolio investments. This growth success reflects a potent combination of a favorable external environment, sound policy implementation and the rising openness of SSA economies, said the report. Despite the positive forecast, the report warned that a possible weaker global outturn could impact negatively on future growth. (IMF Regional Economic Outlook, November 2007)

Net Reserves Up As Rand Firms

15. (U) According to South African Reserve Bank (SARB) data, the Net Gold and Foreign Exchange Reserves (international liquidity position) increased by more than 5% from \$28.42 billion in September 2007 to \$29.93 billion at the end of October 2007. The SARB increased its buying of dollars in the wake of rand gains, while the gold price surged (increasing the dollar value of the SARB's gold reserves) and foreign loans held fell. Analysts said the increase in reserves reinforced the SARB's stated drive to ramp up reserves during spells of rand strength, without disrupting the market. Net Gold and Foreign Exchange Reserves have increased by about 30% while the rand has gained about 7% against the dollar so far this year. South Africa brought a long-standing negative reserves position into balance early in 2004 with the elimination of its loss-making forward foreign exchange book. Since then it has increased net reserves although the total still lags comparable emerging markets. (Business Day, November 7, 2007)

Black Inequality Increases

16. (U) Inequality among blacks is growing faster than among any other population group in South Africa, according to a new survey by Institute of Race Relations. The survey showed that, since 1996, inequality has grown 20% among the African population, 19% among the colored (mixed race) population, and 6% among Indians. Inequality in the white population has declined 2%. Inequality was found to be the highest in rural provinces such as Eastern Cape, Limpopo, and Mpumalanga. Heavily urban Gauteng province had the lowest level of inequality. According to Standard Bank economist Goolam Ballim, "Findings that inequality is increasing among the African population sound very alarming, but it does not mean the lot of lower-income individuals has not improved." Goolam noted that non-cash benefits were among the fastest areas of fiscal spending growth. "It has been found that small increases at a low-income level translate to marked improvement in the welfare of those people." (Business Day, November 7, 2007.)

Holiday Inn Opens In Soweto

7 (U) Hotel operators Zatic Hotels and Resorts opened a brand new 48-room Holiday Inn hotel in Soweto in early November. The R23 million (\$3.5 million) hotel is the first of its kind to be built in a township and is expected to create over 40 jobs for the local people. The hotel operators said the hotel is in a safe area, but it would also ensure that there is more visible police and security presence to allay the guests' fears. The hotel is built in an area which has a very rich history, for example the old residences of Nelson Mandela, Desmond Tutu and Walter Sisulu are in Soweto, which is also the only place in the world where two Nobel Peace Laureates come from the same street. The Soweto Accommodation Association welcomed the opening of the hotel and said it was good for the hotel industry and Soweto. Over 200,000 tourists visit Soweto every year. (Business Day, November 6, 2007)

Mixed Views On Diamond Production Outlook

PRETORIA 00003928 003.2 OF 003

8 (U) Views of the global diamond production outlook diverged at an industry summit held in Johannesburg. MSA Geoservices Director Frieder Reichhardt said significant opportunities existed in Africa, in particular citing diamondiferous kimberlite cratons in West and Southern Africa. De Beers' Patrick Bartlett offered a contrarian, pessimistic view. He doubted that new kimberlites would be of similar value to big historical finds such as Botswana's Jwaneng and Orapa mines. "There have been no major finds in sub-Saharan Africa since the early 1970's, and production from major mines worldwide has reached a peak or is in decline, specifically in reference to kimberlites, with Canada the only major new find in recent times," Bartlett commented. He added that many of the world's most notable diamond operations, such as Alrosa's Udachny and Mirny mines in Russia, Rio Tinto's Argyle, and De Beers' Kimberley mines will reach their peak within the next 20 years and production will then decline. Bartlett explained that many older mines now have to go underground if production from these sources is to continue, especially so in South Africa. (Mining Weekly, October 25, 2007)

BOST